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RUEIME/AMEMBASSY MEXICO 0756
RUFIFR/AMEMBASSY PARIS 1092
RUEIRO/AMEMBASSY ROME 0473
RUEIKO/AMEMBASSY TOKYO 0349
RUEIBU/AMEMBASSY BUENOS AIRES 4374
RUESNA/AMEMBASSY SANTIAGO 1695
RUESUA/AMCONSUL RIO DE JANEIRO 3341
RUESUP/AMCONSUL SAO PAULO 3794
ZEN/AMCONSUL SALVADOR DA BAHIA POUCH
ZEN/AMCONSUL PORTO ALEGRE POUCH
ZEN/AMCONSUL RECIFE POUCH
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EZ1:

C O N F I D E N T I A L BRASILIA 07524

EZ2:

TREASURY PASS TO OASIA/IDN FOR TEMPLEMAN

E.O. 12356: OADR

TAGS: EFIM, BR, IMF

SUBJECT: FORECAST FOR BRAZILIAN ECONOMY 1983-1984

REF: (A) BRASILIA 7271, (B) BRASILIA 6560,

- (C) BRASILIA 6795
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1. ~~CONFIDENTIAL~~ ENTIRE TEXT.

2. ~~SUMMARY~~: THE BRAZILIAN ECONOMY IS GOING THROUGH A DIS-
ORGANIZED ADJUSTMENT PROCESS. FAILURE TO ACCOMMODATE THE
DOMESTIC ECONOMY IN A TIMELY FASHION TO THE NECESSARY
LARGE SWING IN THE CURRENT ACCOUNT--WHICH IS OCCURRING--
HAS AGGRAVATED EXISTING DISTORTIONS. THE RESULT HAS BEEN
AN UPWARD LURCH IN INFLATION TO ANNUAL RATE OF 200 PERCENT
IN THE FIRST SEVEN MONTHS OF 1983, A STEADY ERODING--

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AND SERIOUS FINANCIAL STRAIN THROUGHOUT THE ECONOMY. THE MEASURES NECESSARY TO CONTAIN AND THEN CORRECT THE SITUATION ALL IMPLY A SHARP CONTRACTION IN FINAL DEMAND OVER THE NEXT 18 MONTHS. UNDER GOADING FROM THE IMF THE GOB BEGAN IMPLEMENTING MANY OF THE NECESSARY FURTHER POLICY ADJUSTMENTS AT MID-YEAR. SUBSIDIES ARE BEING CURTAILED, PUBLIC SPENDING IS BEING RESTRAINED, A TIGHT MONETARY POLICY APPEARS TO BE BEING IMPLEMENTED, AND SOME NEW TAXES HAVE BEEN ADDED. BUT NEW DISTORTIONS HAVE ALSO BEEN INTRODUCED, PARTICULARLY IN THE AREA OF PRICE/INTEREST CONTROLS, WHICH WILL NEED TO BE CORRECTED. THE NEW SALARY ADJUSTMENT LAW WILL HELP IN THE ANTI-INFLATION PROGRAM BUT WILL ALSO CREATE DISTORTIONS THAT WILL HAVE TO BE CORRECTED LATER.

3. THE CURRENT ACCOUNT DEFICIT SHOULD DROP TO 7.6 BILLION DOLLARS IN 1983 FROM 14.7 BILLION IN 1982. NEXT YEAR SHOULD BRING A FURTHER SMALL IMPROVEMENT TO 5.9 BILLION DOLLARS. THERE IS STILL NO ASSURANCE DEFICITS OF THIS MAGNITUDE CAN BE FINANCED. BY OUR CALCULATIONS, UNIDENTIFIED NEW FINANCING OF 3.8 BILLION DOLLARS WILL NEED TO BE FOUND THIS YEAR AND ANOTHER 5.1 BILLION DOLLARS NEXT YEAR. THESE ESTIMATES ASSUME THE RESERVE ACCUMULATION TARGETS OF THE IMF ARE MET AND THAT GOLD SALES ARE COUNTED IN THESE RESERVE TARGETS. FOR ESTIMATION PURPOSES, WE HAVE ASSUMED THE CURRENT TALKS WITH THE IMF AND THE BANKS WILL BE SUCCESSFUL AND THAT THE FINANCING WILL BE FOUND.

4. IF THE POLICIES THAT HAVE BEEN ADOPTED ARE CONSISTENTLY EXECUTED, GDP SHOULD FALL IN THE SECOND HALF OF 1983 AND THROUGH MOST OF 1984. INFLATION ALSO SHOULD DROP SUBSTANTIALLY. BASED ON PAST PERFORMANCE IT IS HARD TO BE CONFIDENT ABOUT THE CONSISTENCY AND CONTINUITY OF ECONOMIC POLICY. THE DOMESTIC MOOD IS SOUR AND PUBLIC SUPPORT FOR NECESSARY ADJUSTMENT POLICIES IS WEAK. MAN-IN-THE-STREET ATTITUDES ARE THAT A MAJOR CONTRACTION OF LIVING STANDARDS HAS ALREADY BEEN ENDURED OVER THE PAST TWO AND ONE HALF YEARS. PUBLIC DISCUSSION OF MORATORIUM HAS CONVEYED THE THE MISLEADING IMPRESSION THAT THERE MAY BE AN EASIER ADJUSTMENT PROCESS THAN THE IMF/GOB PROGRAM. IN THIS ATMOSPHERE, WITH THE SALARY LAW STILL PENDING BEFORE THE CONGRESS, WITH LARGE PAYMENTS ARREARS, AND WITH THE NECESSARY EXTERNAL FINANCING STILL NOT NAILED DOWN, THERE ARE AMPLE OPPORTUNITIES FOR THE DOMESTIC AND EXTERNAL ADJUSTMENT PROGRAMS TO COME UNRAVELED.

5. DETAILED SUPPORTING TABLES WERE TRANSMITTED IN BRASILIA 7271. END SUMMARY.

6. RECENT ECONOMIC DEVELOPMENTS

- STATISTICS ON DOMESTIC ECONOMIC PERFORMANCE IN THE FIRST HALF OF 1983 ARE SKETCHY AND CONTRADICTORY. PLANNING MINISTRY OFFICIALS TELL US THEY ESTIMATE GDP GROWTH WAS ZERO FOR THE FIRST SIX MONTHS OF THE YEAR; WE EXPECT THERE WAS A SMALL DECLINE. INDUSTRIAL PRODUCTION FIGURES HAVE BEEN DELAYED; THE AVAILABLE STATISTICS THROUGH FEBRUARY SHOW PRODUCTION DOWN 0.5 PCT COMPARED TO JAN-FEB 1982. FOR SOME INDIVIDUAL SECTORS, TRADE ASSOCIATION NUMBERS INDICATE PRODUCTION WAS BETTER IN THE FIRST HALF OF THE YEAR THAN THE GENERAL ATMOSPHERE OF RECESSION WOULD SUGGEST. VEHICLE PRODUCTION WAS UP.

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PCT. PETROLEUM WAS UP 24.8 PCT. INDUSTRIAL ELECTRICITY USE WAS UP 9.3 PCT. RETAIL TRADE ASSOCIATION FIGURES, HOWEVER, HAVE REAL SALES OFF 3-5 PCT IF AUTOS ARE EXCLUDED. T.V. SALES WERE OFF 30 PCT. FIESP FIGURES FOR SAO PAULO SHOW TOTAL HOURS WORKED IN THE INDUSTRIAL SECTOR WERE DOWN 10.9 PCT IN JUNE COMPARED TO JUNE LAST YEAR, AND THE FIESP ACTIVITY INDEX WAS DOWN 2.9 PCT.

7. ON A MORE IMPRESSIONISTIC LEVEL IT APPEARS DEMAND AND PRODUCTION WERE HELD UP IN THE FIRST HALF BY SOME SPECIAL FACTORS PLUS SPENDING BASED ON INFLATIONARY ANTICIPATIONS. A SPECIAL TAX EXEMPTION FOR TAXIS PLUS INFLATION HEDGE BUYING BY HOUSEHOLDS APPEAR TO EXPLAIN THE AUTO FIGURES. RECENTLY, AUTO SALES HAVE BEEN RUNNING OUT OF STEAM. STEEL IS ACC ACCOUNTED FOR BY BETTER FOREIGN SALES. REAL WAGES FAIRLY CLEARLY MUST HAVE DECLINED BECAUSE OF THE RAPID ACCELERATION OF INFLATION AND THE SIX-MONTH LAG IN SALARY ADJUSTMENTS. REDUCED INDUSTRIAL EMPLOYMENT SHOULD ALSO HAVE CUT REAL INCOMES. PERSONAL SAVINGS RATES MUST HAVE FALLEN AS HOUSEHOLDS TRIED TO MAINTAIN LIVING STANDARDS.

8. TWO SECTORS WHERE ACTIVITY HAS BEEN PARTICULARLY HARD HIT ARE CONSTRUCTION AND INVESTMENT. WITH INTEREST RATES EXTREMELY HIGH AND MONEY FROM THE HOUSING BANKS SCARCE, NEW STARTS HAVE SLUMPED. CONSTRUCTION MATERIALS ARE AMONG THE SLOWEST RISING COMPONENTS OF THE GENERAL PRICE INDEX. NEW CAPITAL EQUIPMENT ORDERS HAVE WITHERED AS THE STATE ENTERPRISES, WHICH HAD BEEN THE MAINSTAY OF INVESTMENT, BEGAN SCALING BACK THEIR PROJECTS.

9. AGRICULTURAL PRODUCTION IS STILL BEING TALLIED BUT IT IS NOW EXPECTED THAT TOTAL OUTPUT WILL BE ONLY ABOUT LEVEL WITH LAST YEAR AND SUBSTANTIALLY LESS THAN EXPECTED EARLIER IN THE YEAR. GRAINS AND OIL SEEDS PRODUCTION, ABOUT 60 PCT OF TOTAL AGRICULTURAL OUTPUT, WILL BE DOWN ABOUT 5 PCT, WHILE COFFEE, 20 PCT OF AG OUTPUT, WILL BE UP 70 PCT.

10. NEAR TERM PROSPECTS

- IF GDP MANAGED TO REMAIN ROUGHLY LEVEL IN THE FIRST HALF OF THE YEAR, EVERYTHING POINTS TOWARD FALLING ACTIVITY IN COMING MONTHS. POLICY MEASURES THAT HAVE BEEN ADOPTED FAIRLY GUARANTEE THIS.

11. THE HEART OF THE BRAZILIAN AGREEMENT WITH THE IMF IS A MAJOR CUT IN THE PUBLIC SECTOR DEFICIT. UNDER THE PROGRAM THE DEFICIT IN REAL TERMS WOULD DECLINE FROM 6.0 PCT OF GDP IN 1982 TO 2.9 PCT IN 1983 AND 0-0.5 PCT IN 1984. THE BRAZILIANS CLAIM THE DEFICIT DROPPED 1.5 PCT PT OF GDP IN THE FIRST HALF OF 1983. IF TRUE, THE DECLINE MUST HAVE BEEN DUE TO TAX INCREASES SINCE NO PROGRESS WAS MADE ON CREDIT SUBSIDIES AND STATE ENTERPRISE DEFICITS APPARENTLY DID NOT DECLINE. STATE GOVERNMENTS, WHICH ARE INCLUDED IN THE DEFICIT CONCEPT, ARE ALMOST ALL IN CHAOTIC FINANCIAL SHAPE AND THEY WILL BE REDUCING THEIR DEFICITS FROM NECESSITY AS MUCH AS FOR POLICY REASONS.

12. WITHDRAWAL OF THE PETROLEUM, WHEAT AND AGRICULTURE CREDIT SUBSIDIES SHOULD HAVE SUBSTANTIAL EFFECTS ON REAL INCOMES. DEMAND FOR PETROLEUM AND WHEAT IS RELATIVELY INELASTIC SO HOUSEHOLDS WILL BE PAYING A GOOD DEAL MORE FOR A LITTLE LESS. THE AGRICULTURAL CREDIT SUBSIDIES

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WHAT EFFECT THEIR WITHDRAWAL WILL HAVE ON PRODUCTION, BUT
IT CLEARLY WILL MEAN A LOSS IN REAL INCOMES TO THOSE WHO
HAD BEEN GETTING MONEY AT 60 PCT WHEN GOVERNMENT SECURI-
TIES WERE YIELDING IN EXCESS OF 200 PCT.

3. OTHER DEFICIT REDUCTION MEASURES WILL HAVE A MORE
IRECT EFFECT ON FINAL DEMAND. STATE ENTERPRISE PURCHASES
F INVESTMENT GOODS WILL HAVE TO DECLINE ALTHOUGH THE
MPACT OF THIS MAY ALREADY HAVE BEEN PARTIALLY REGISTERED
N REDUCED ORDERS FROM THE PRIVATE SECTOR.

14. THE EFFECT OF THE SALARY LAW IS A LITTLE TRICKY TO
ANALYZE BUT AS WE READ IT, IT SHOULD CURTAIL CONSUMER
SPENDING BY REDUCING EXPECTED INCOME. UNDER PREVIOUS
ARRANGEMENTS, MOST WORKERS COULD EXPECT TO BE FAIRLY
FULLY COMPENSATED WITHIN A FEW MONTHS FOR LOSSES IN
PURCHASING POWER DUE TO INFLATION. THE NEW SYSTEM
GUARANTEES THEY WON'T BE FULLY COMPENSATED DURING THE
NEXT TWO YEARS. IF THE SYSTEM WORKS AS INTENDED, INFLA-
TION WILL FALL. WITH FALLING INFLATION 80 PCT OF THE
PREVIOUS SEMESTER'S INFLATION MAY BE LARGE ENOUGH TO
KEEP CURRENT WAGES IN LINE WITH CONTEMPORANEOUS INFLATION.
BUT IT WOULD NOT COMPENSATE FOR EARLIER LOST INCOME AND
THIS LOSS IN PERMANENT INCOME WILL REQUIRE A DOWNWARD
ADJUSTMENT IN CONSUMPTION.

15. MONETARY POLICY HAS TO BE TIGHT TO BE CONSISTENT
WITH A RAPIDLY FALLING RATE OF INFLATION. ON SURFACE
APPEARANCES THE MONETARY AUTHORITIES HAVE BEEN MAINTAIN-
ING A RELATIVELY FIRM STANCE IN THE FACE OF A RAPID
ACCELERATION OF INFLATION. M-1 OVER THE 12 MONTHS ENDING
JUNE INCREASED 87 PCT. THE BASE INCREASED 93 PCT. PRICES
ADVANCED 143 PCT IN THE YEAR ENDING JULY. FROM JAN-JULY
THE ANNUAL RATE OF INFLATION WAS 200 PCT WHILE SEASONALLY
ADJUSTED M-1 GREW AT AN ANNUAL RATE OF 112 PCT IN THE
FIRST HALF. THE INFLATION FIGURES HAVE BEEN TUGGING THE
MONEY NUMBERS UP, BUT THE AUTHORITIES ARE RESISTING THIS
PRESSURE AND MORE RECENTLY HAVE OPERATED AGGRESSIVELY TO
LIMIT MONETARY GROWTH (BRASILIA 6560,6795).

16. IN A HYPER-INFLATIONARY ECONOMY SUCH AS BRAZIL, THE
MONEY SUPPLY NUMBERS ALONE CAN BE A LITTLE MISLEADING.
IN THE LAST FOUR YEARS THE CASH BASIS ON WHICH THE ECONOMY
OPERATES HAS SHRUNK IN REAL TERMS BY MORE THAN HALF. THE
M-1 VELOCITY OF CIRCULATION HAS GONE FROM 9.8 IN 1979 TO
ABOUT 20.0 THIS YEAR. NO ONE KEEPS MORE THAN ABSOLUTE
MINIMAL CASH BALANCES. SCHEMES FOR MAINTAINING WORKING
BALANCES IN INTEREST EARNING FORM HAVE PROLIFERATED.
VERY RECENTLY THE AUTHORITIES HAVE GONE A STEP FURTHER
IN LIQUIFYING NEAR MONIES. SAVINGS ACCOUNTS HAVE BEEN
ALLOWED TO REGISTER MONETARY CORRECTION MONTHLY AND NOW
PERMIT MONTHLY WITHDRAWALS. WITH VIRTUALLY UNIVERSAL

MONETARY CORRECTION, TIME SERIES FOR THE HIGHER M-S
ARE ALSO HARD TO READ AS INDICATORS OF MONETARY POLICY.
THE HIGHER M-S ALL AUTOMATICALLY GO UP WITH INFLATION AS
MONETARY CORRECTION IS CREDITED TO ACCOUNTS. IN OUR
VIEW, PROBABLY THE BEST INDICATOR OF MONETARY POLICY IS
THE BASE AND THIS HAS REMAINED WELL BELOW RECENT
INFLATION.

17. THROUGH THE REST OF THIS YEAR, WE EXPECT SERIOUS

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IN THE BASE TO LESS THAN 100 PCT. OFFICIAL CREDIT TO PRIORITY SECTORS WILL HAVE TO BE SQUEEZED SHARPLY IN REAL TERMS. ELIMINATING THE WHEAT AND PETROLEUM SUBSIDIES WILL HELP THIS YEAR TO MODERATE PRESSURE FOR EXPANSION OF THE MONETARY BASE BUT AGGRESSIVE OPEN MARKET OPERATIONS WILL STILL BE NECESSARY. NEXT YEAR OPERATING CONTROL SHOULD BE A LITTLE EASIER AS RURAL CREDIT STARTS TO PAY INTEREST RATES THAT ARE CLOSER TO INFLATION RATES. LARGER REPAYMENTS MEAN THERE WILL BE REDUCED NECESSITY TO BORROW OR PRINT MONEY TO MAINTAIN THE REAL LEVEL OF THESE CREDIT PROGRAMS. EVEN IF OPERATING CONTROL BECOMES A LITTLE EASIER, POLICY WILL HAVE TO BE CONTINUOUSLY TIGHT IF THE AMBITIOUS TARGETS OF REDUCING INFLATION DOWN TOWARD 60-70 PCT ARE TO BE MET. IF THE PUBLIC SECTOR DEFICIT DOES SHRINK AS PROGRAMED, IT IS POSSIBLE THAT THIS TIGHT MONETARY POLICY WOULD BE ACCOMPANIED BY SOME REDUCTION IN WHAT ARE NOW EXTREMELY HIGH REAL INTEREST RATES.

18. WHILE WE ARE CONFIDENT THE POLICIES THAT ARE BEING ADOPTED ARE ANTI-INFLATIONARY, QUANTIFYING THE IMPROVEMENT THROUGH 1984 IS GUESSWORK. THE MAXI-DEVALUATION, WITHDRAWAL OF PETROLEUM AND WHEAT SUBSIDIES, AND CROP LOSSES FROM DROUGHT AND FLOODS HAVE ADDED A LARGE BUBBLE TO THE RECENT INFLATION NUMBERS AND WE BELIEVE THE UNDERLYING MONTHLY TREND OF INFLATION IS MORE LIKE 8.0-9.0 PCT PER MONTH RATHER THAN THE 12.0-13.0 PCT FIGURES OF THE LAST FEW MONTHS. TO GET DEC/DEC INFLATION DOWN TO 60 PCT NEXT YEAR, AS THE IMF WANTS, MEANS CUTTING THE MONTHLY INFLATION DOWN TO 4.0 PCT. WE DOUBT THE NUMBERS WILL FALL THAT MUCH THAT SOON. AS A STILL FAIRLY ARBITRARY GUESS, WE HAVE PROJECTED DEC/DEC INFLATION FOR NEXT YEAR AT 70 PCT.

19. IF THE ADJUSTMENT PROGRAM WORKS AS SCRIPTED DURING 1983-84, THE CURRENT ACCOUNT, OR NET FOREIGN BORROWING, WOULD DROP BY AROUND 8.5 BILLION DOLLARS OR APPROXIMATELY 3.0 PCT OF GDP. THE DOMESTIC COUNTERPART TO THIS REDUCED AVAILABILITY OF FOREIGN SAVINGS WOULD BE THE PROPOSED CUT OF 6 PERCENTAGE POINTS OF GDP IN THE PUBLIC SECTOR DEFICIT. HIGHER TAXES, REDUCED SUBSIDIES AND THE RECESSION WILL PROBABLY SUPPRESS PERSONAL SAVINGS RATES, AT LEAST DURING THE TRANSITION, BUT THE OUTCOME WOULD STILL BE A SUBSTANTIAL IMPROVEMENT IN THE SECTORAL BALANCE. IT IS OUR IMPRESSION THAT A MAJOR PART OF THE INFLATIONARY PROBLEM IN THE FIRST HALF OF THE YEAR HAD ITS ORIGIN IN THE FAILURE OF THE PUBLIC SECTOR TO REDUCE ITS CLAIMS ON SAVINGS FLOWS AS FAST AS FOREIGN SAVINGS WERE DRYING UP.

20. GOB ECONOMISTS TELL US THAT THEY AND THE IMF STAFF AGREE THAT POLICIES NOW ADOPTED SHOULD REDUCE THE PUBLIC SECTOR DEFICIT TO AROUND 0.5 PCT OF GDP NEXT YEAR. WE ARE NOT IN A POSITION TO CHECK THEIR CALCULATIONS, BUT ARE HIGHLY SKEPTICAL. REVENUE IS LIKELY TO BE A MAJOR PROBLEM AS THE RECESSION DEEPENS AND THE SALARY LAW WILL AGGRAVATE PROBLEMS. STATE GOVERNMENTS WHICH RELY ON VAT TAXES ARE ALREADY HAVING PROBLEMS. THE SOCIAL SECURITY SYSTEM EXPECTS SUBSTANTIAL NET REVENUE LOSSES IF SALARIES RUN AT 80 PCT OF INFLATION. THE SAME SHOULD ALSO BE TRUE OF INCOME TAX RECEIPTS. HOWEVER, EVEN IF THE PUBLIC SECTOR DEFICIT DOES NOT DROP AS MUCH AS PROJECTED, IT

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21. EXTERNAL ACCOUNTS

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- FOR 1983 WE LOOK FOR A TRADE SURPLUS OF 5.5 BILLION DOLLARS, AND A CURRENT ACCOUNT DEFICIT OF 7.6 BILLION DOLLARS. FOR THE YEAR WE LOOK FOR EXPORTS OF 22.5 BILLION AND IMPORTS OF 16.0 BILLION. DURING THE FIRST SEVEN MONTHS OF 1983 IMPORTS AND EXPORTS WERE EACH RUNNING AT ANNUAL RATES ABOUT 1.5 BILLION LESS THAN THIS. NORMAL SEASONAL INFLUENCES WOULD TEND TO INCREASE EXPORTS IN THE LAST HALF OF THE YEAR, BUT CENTRAL BANK STAFFERS TELL US THEY THINK SEASONAL PATTERNS HAVE BEEN DISTORTED THIS YEAR. HOWEVER, EXCLUDING SEASONAL FACTORS, THE LAGGED EFFECT OF THE MAXI-DEVALUATION SHOULD GROW AS THE YEAR WEARS ON. THE RECENT RUNUP OF SOY PRICES SHOULD ALSO HELP THE SECOND HALF EXPORT NUMBERS. IMPORTS HAVE BEEN CONSISTENTLY WEAK ALL YEAR AND THERE IS NO REASON TO ANTICIPATE ANY RECOVERY IN THE SECOND HALF. THE ECONOMY WILL BE FALTERING AND THE FOREIGN EXCHANGE SHORTAGE IS GETTING WORSE. SIXTEEN BILLION DOLLARS OF IMPORTS MAY BE HIGH.

22. FOR 1984 WE SEE NO REASON FOR IMPORTS TO INCREASE. IF BRAZIL STICKS TO THE IMF PROGRAM, DOMESTIC ACTIVITY WILL BE LOWER THAN IN 1983. NEW LOCAL OIL PRODUCTION WILL SAVE ABOUT 1.0 BILLION DOLLARS IN PETROLEUM PURCHASES. CUTBACKS IN PUBLIC INVESTMENT SHOULD CONTINUE TO CRIMP CAPITAL GOODS IMPORTS. OUR ESTIMATE OF 15.5 BILLION IN TOTAL 1984 IMPORTS ALLOWS FOR A SMALL INCREASE IN THE VALUE OF IMPORTS OTHER THAN OIL AND EQUIPMENT. BASED ON THE ASSUMED GROWTH IN WORLD TRADE FOR NEXT YEAR WE PROJECT A NINE PERCENT RISE IN BRAZILIAN EXPORTS, TO 24.5 BILLION DOLLARS. THIS ASSUMES A FAIRLY STRONG GAIN IN INDUSTRIAL EXPORTS AND MINOR IMPROVEMENTS IN AGRICULTURAL SALES. COMMODITY PRICES WILL, OF COURSE, HAVE A MAJOR BEARING ON THE FINAL OUTCOME.

23. THE SERVICE ACCOUNTS ARE DOMINATED BY INTEREST PAYMENTS. WITH LOWER INTEREST RATES IN 1983 NET PAYMENTS SHOULD DECLINE TO 9.9 BILLION DOLLARS, A 1.5 BILLION SAVINGS OVER 1982. IF RATES HOLD LEVEL NEXT YEAR AT 10 PCT, THE INTEREST BILL WOULD RISE BY ANOTHER .7 BILLION TO 10.6 BILLION DOLLARS. WE ESTIMATE THE FLOATING RATE DEBT NOW TO BE AROUND 70 BILLION DOLLARS, SO EACH POINT ON LIBOR COSTS AN ADDITIONAL 700 MILLION IN DEBT SERVICE. CENTRAL BANK OFFICIALS SAY THEY ARE NOW ASSUMING A 1984 LIBOR OF 11 PCT.

24. SOME INDIVIDUAL ITEMS IN THE OTHER SERVICES CATEGORY HAVE BEEN BOUNCING AROUND RECENTLY BUT THE GROUP AS A WHOLE SHOWS A YEAR-TO-YEAR INERTIA THAT IS UNLIKELY TO CHANGE. WE EXPECT OTHER SERVICES TO BE 4.4 BILLION IN 1984 VS 4.3 BILLION IN 1983. WITH THESE TRADE AND SERVICE RESULTS THE CURRENT ACCOUNT DEFICIT WOULD BE 7.6 BILLION DOLLARS IN 1983 AND 5.9 BILLION IN 1984.

25. UNIDENTIFIED FINANCING REQUIREMENTS DEPEND CRUCIALLY ON RESERVE TARGETS AND DEFINITIONS. FOR OUR CALCULATIONS WE HAVE ASSUMED THE FUND RESERVE REQUIREMENTS ARE MET BUT THAT GOLD PRODUCTION IS COUNTED IN MEETING THE RESERVE TARGET. AS WE ADD UP THE NUMBERS, THERE IS AN UNIDENTI-

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AND 5.1 BILLION DOLLARS FOR 1984. IF THE FUND PROCEDURE
OF NOT COUNTING GOLD WERE USED, THESE FIGURES WOULD EACH
BE INCREASED BY 600 MILLION DOLLARS, FOR A COMBINED 13-
MONTH FINANCING REQUIREMENT OF 10.1 BILLION DOLLARS. A
NUMBER OF ALTERNATIVE FINANCING PACKAGES ARE NOW UNDER
DISCUSSION, SO IN OUR CAPITAL ACCOUNT TABLES WE HAVE
ARBITRARILY PLACED ALL THE UNIDENTIFIED FINANCING IN THE
COMMERCIAL BANK CATEGORY. KOPP

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